

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cnci.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Fiscal Analysis Director *ICJ*
Derrick Headd, Fiscal Staff Analyst *DH*

DATE: March 24, 2010

RE: Strategic Staffing Solutions'-S3 2010 PA 328 Tax Abatement Request
(Recommend Approval)

Strategic Staffing Solutions (S3) is requesting that the Planning and Economic Development Committee grant its request for a Public Act 328 Tax Abatement. The purpose of this report is to focus on the merits of this request.

According to its website, Strategic Staffing Solutions, L.C., also known as "S3" was founded in 1990. S3 is a provider of Information Technology Consulting and Staff Augmentation, Vendor Management Programs, Customized Project Solutions, Off/On Shore Services and Executive Search Services to customers throughout the U.S. and Europe. S3 refers to itself as "one of Michigan's largest women-owned companies". Also according to its website, S3 is headquartered in Detroit.

For your review, we have included as **Attachment A**, Planning and Development Department's (PDD) letter and overview of the project, including the investment application.

Project Description

Strategic Staffing Solutions (S3), located at 645 Griswold (the Penobscot Building), is an Information Technology Center office operation. S3 plans to make a personal property investment of approximately **\$1 million**. The \$1 million investment includes purchases of computers, furniture and fixtures, office equipment and leasehold improvements of \$100,000. If Council approves this abatement, the estimated time of completion is within 1-2 years. In November 2009, the project received a \$3.8 million State of Michigan MEGA tax credit, on the basis of its projection to create 437 jobs over five years.

The expansion, a project for a new center to house IT consultants, will allow S3 to provide for its clients, the development of internal software applications and contracted technical support for call operations. According to Crain's Business, Blue Cross Blue Shield of Michigan has signed up as the first customer for 50-100 contractual IT employees. S3 is seeking the abatement to offset the costs of competing with lower cost

offshore IT firms, primarily those in India. S3 views itself as an alternative to US companies to shipping off IT consultant work overseas.

Job Creation

As we stated earlier, Strategic Staffing Solutions (S3) anticipates this project will create 437 jobs over 5 years. S3 has planned for an incremental increase in employment over the five years of the project. The company projected the following cumulative job creation in its application to the MEDC for MEGA jobs credit approval:

2010: 156

2011: 282

2012: 334

2013: 387

2014: 437

Therefore, S3 has projected that the project will be at full employment strength, 437 jobs, in 2014.

328 Abatement Request and Cost/Benefit Analysis

Strategic Staffing Solutions (S3) is requesting a 7-year personal property abatement at 100% for computers, furniture and fixtures, office equipment and leasehold improvements, in the amount of \$1 million. The Cost/Benefit Analysis is as follows:

Strategic Staffing Solutions (S3) 328 Abatement **cost** over 7 years:

Taxing Unit

City of Detroit	\$42,268
Detroit Public School	\$19,383
Detroit Library	\$11,367
Wayne County	\$18,090
WC3 and Intermediate School District	<u>\$3,692</u>
Total	\$94,801

Strategic Staffing Solutions (S3) 328 Abatement **benefit** over 7 years:

Year	Number of Employees	Minimum Income Tax Revenue	Maximum income Tax Revenue
2010	156	\$87,204	\$174,408
2011	282	\$157,638	\$315,276
2012	334	\$186,706	\$373,412
2013	387	\$216,333	\$432,666
2014	437	\$244,283	\$488,566
2015	437	\$244,283	\$488,566
2016	437	<u>\$244,283</u>	<u>\$488,566</u>
		\$1,380,730	\$2,761,460

Given the factors above, the net cost benefit from the project over seven years could potentially clear the City of Detroit \$1.2 to \$2.6 million in income tax revenue alone.

Additional Information

In addition, we forwarded a series of questions to Strategic Staffing Solutions (S3) and received the following responses:

Fiscal: What is the level of community service S3 provides the City of Detroit?

S3: Detroit-based Strategic Staffing Solutions (S3) has placed philanthropy on the top of our corporate agenda since the day we opened almost 20 years ago. Founder, President and CEO, Cynthia J. Pasky, encourages and ultimately expects each of our branches and employees to be philanthropically involved in some manner. This has resulted in numerous board memberships and charitable activities. Between the five executive team members, they are actively involved in nearly 15 Detroit-based non-profit boards, including the Community Foundation for Southeast Michigan, the Downtown Detroit Partnership, the United Way for Southeast Michigan and the Detroit Institute of Arts. As a company, we participate in and originate several charitable activities, which is best exemplified through our involvement with 2-1-1 On the Go! Pasky worked with her local board affiliations, the Downtown Detroit Partnership and the United Way for Southeast Michigan, to create 2-1-1 on the Go!, a Detroit homeless outreach program. The program has successfully placed over 100 Detroit homeless in permanent housing and jobs since its inception two years ago. In addition to creating this program, S3 continuously supports 2-1-1 On the Go! through our two charity events, the Grand Prix Shakedown 8K foot race on Belle Isle and the Detroit Charity Golf Outing. The Grand Prix Shakedown began 16 years ago and the golf outing seven years ago, and together have raised \$30,000 for 2-1-1 On the Go! and over \$400,000 for Detroit charities. S3 has also supported a wide variety of local community service organizations including:

**Forgotten Harvest
THAW
Adopt-A-Child Holiday program
Vista Maria
Mariners Inn
Big Brothers Big Sisters
Detroit Public School - Annual book donation
Clippert Academy - Annual Career Day
My Sisters Place
Looking for My Sister
Detroit Rescue Mission Missionaries
The Parade Company
Detroit Symphony Orchestra
Detroit Mounted Police
Detroit Regional Chamber of Commerce
Detroit Youth Foundation
Detroit Workforce Development Department**

Belle Isle Women's Committee

Fiscal: Does S3 currently have any other outstanding tax abatements with the City of Detroit?

S3: To the best of (our) knowledge, S3 has no outstanding tax abatements with the City.

Fiscal: Please describe in detail how this project enhances S3 as a business in the city of Detroit.

S3: This project represents an exciting new service offering for S3, in addition to the services it currently provides. S3's current and prospective customers are very excited about the opportunity to purchase offsite IT development services without needing to send those services overseas and instead creating jobs right here in the City of Detroit. Given the level of interest we have already seen from existing and prospective customers, we believe that this new service offering will provide yet another means for S3 to serve its customers' service needs and create jobs in the City of Detroit.

Fiscal: Please explain why S3 needs Council's consideration for a vote during next week's formal session.

S3: Approval of this application is needed as soon as possible because without approval of the application, S3 may need to stop purchasing equipment and software because it would not be exempt if purchased before the date of Council's approval. S3 is eager to equip its development center quickly so that S3 can start hiring IT consultants to work in the center and meet its job creation goals.

Conclusion & Recommendation

Fiscal recommends that Council approves Strategic Staffing Solutions' (S3) 7-year 328 Abatement request in order to support its \$1 million personal property (computers, furniture and fixtures, office equipment and leasehold improvements) investment at its location at the Penobscot Building. For the following reasons:

1. S3's \$1 million investment could potentially generate \$1.2 to \$2.6 million in income tax revenue over the forgone taxes over the seven years of the abatement, through the hiring of over 400 new employees.
2. S3's local client base would allow for more local dollars to remain in the local economy, given that S3 would provide a viable alternative for local client to use as opposed to working with overseas IT call center consultants.
3. Having over 400 new jobs in the downtown area would help to stabilize downtown Detroit's service industry.
4. S3 has proven to be a valuable local contributor, given its community service record cited earlier.

The Planning and Development Department will present a resolution for Council's consideration to adopt a 7-year abatement for. Strategic Staffing Solutions (S3) at the Thursday March 25th meeting of the Planning and Economic Development Standing Committee meeting.

Please contact us if we can be of any further assistance.

Council Divisions

Auditor General's Office

Warren Palmer, Planning & Development Department

Marja M. Winters, Planning & Development Department

Brian Watkins, Planning & Development Department

Clinton Griffin, Planning & Development Department

Norman White, Chief Financial Officer

Pamela Scales, Budget Director

Linda M. Bade, Chief Assessor

Kim Miller, Finance Assessors

Christine Granger, Human Rights

Gwendolyn Cook-Jones, Human Rights

Samuel Owens, Human Rights

Kamau Marable, Mayor's Office

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Attachment A

CITY OF DETROIT
PLANNING AND DEVELOPMENT DEPARTMENT

2300 CADILLAC TOWER
DETROIT, MICHIGAN 48226
PHONE 313-224-6380
FAX 313-224-1639
WWW.DETROITMI.GOV

March 8, 2010

Detroit City Council
1340 Coleman A. Young Municipal Center
Detroit, MI 48226

RE: Request for Discussion regarding the Approval of the Application for Exemption of New Personal Property Tax for the Strategic Staffing Solutions-S3, L.L.C., in accordance with Public Act 328 of 1998.

Honorable City Council:

Representatives of the Planning & Development and Finance Departments have reviewed the application of the following company, which requests City approval for Exemption of "New" Personal Property Tax.

Based on discussions with the company and the examination of the submitted application, we are convinced this company meets the criteria for tax relief as set forth by Public Act 328 of 1998.

COMPANY: Strategic Staffing Solutions-S3, L.L.C.

ADDRESS 645 Griswold St., Ste. 2900
Detroit, Michigan

LOCATED IN: Downtown Development District (DDA)

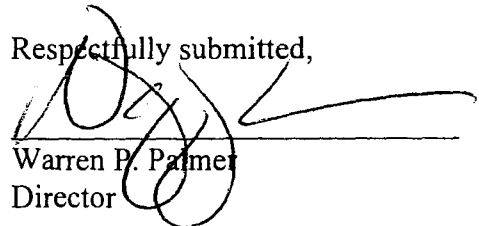
TYPE OF BUSINESS: An Information Technology Development Center office operation to be established and operated by Strategic Staffing Solutions, L.C., a/k/a Strategic Staffing Solutions-S3, L.L.C., a Florida limited liability company, in the Penobscot Building.

INVESTMENT AMOUNT:	Real Property	\$ -0-
	Personal Property	\$1,000,000.00
	Total	\$1,000,000.00

EMPLOYMENT:	New hires	437
	Total	437

We request that a discussion be held for the purpose of considering approval of an Application for Exemption of New Personal Property Tax.

Respectfully submitted,



Warren P. Palmer
Director

WPP/CG/cg

cc: K. Marable, Mayor's Office
A. Fields
C. Nyeche
B. Watkins
R. Barr
D. Fox

Application for Exemption of New Personal Property

Issued under P.A. 328 of 1998. An exemption will not be effective until approved by the State Tax Commission.

INSTRUCTIONS: Read instructions on page 2 of this form before completing this application. File the original and two copies of this form and the required attachments (resolution approving, copy of legal description and a detailed description of the business operations) with the clerk of the local government unit. The State Tax Commission requires two complete sets.

PART 1: APPLICANT INFORMATION

1a. Applicant/Company Name (Applicant must be an ELIGIBLE BUSINESS) Strategic Staffing Solutions-S3, L.C.		2. County Wayne
1b. Company Mailing Address (No. and Street, P.O. Box, City, State, ZIP Code) 645 Griswold Street, Ste. 2900, Detroit, MI 48226		3. City/Township/Village (indicate which) City of Detroit
1c. Location of Eligible Business (No. and Street, City, State, ZIP Code) 645 Griswold Street, 26th Floor, Detroit, MI 48226	4a. Local School District Detroit	4b. School Code 82010
5. Check below the type of business in which you are engaged and provide a detailed description of the business operation on a separate sheet <input type="checkbox"/> Manufacturing <input type="checkbox"/> Research & Development <input checked="" type="checkbox"/> Office Operations <input type="checkbox"/> Mining <input type="checkbox"/> Wholesale Trade		
6a. Identify type of ELIGIBLE DISTRICT where Eligible Business and New Personal Property will be located Brownfield Redevelopment Zone	6b. Governing Unit that Established ELIGIBLE DISTRICT City of Detroit	6c. Date ELIGIBLE DISTRICT was Established April 30, 1998
7. Name of Person in the Eligible Business to Contact for Further Information David L. Fox		8. Telephone Number (313) 596-6911
9. Mailing Address 645 Griswold Street, Ste. 2900, Detroit, MI 48226		

The undersigned, authorized officer of the company making this application certifies that, to the best of his/her knowledge, no information contained herein or in the attachments hereto is false in any way and that all of the information is truly descriptive of the property for which application is being made. The undersigned, authorized officer further certifies that the applicant is an Eligible Business as defined in P.A. 328 of 1998.

11. Name of Company Official David L. Fox	12. Title Corporate Secretary
13. Signature (No Authorized Agents)	14. Date 02/12/2010
15. Mailing Address (include City, State and ZIP Code) 645 Griswold Street, Ste. 2900, Detroit, MI 48226	
16. Email Address dfox@strategicstaff.com	17. Telephone Number (313) 596-6911
18. Fax Number (313) 962-5088	

PART 2: LOCAL GOVERNMENT UNIT CLERK VERIFICATION

19. Name of Local Governmental Unit Which Passed Resolution for Exemption of New Personal Property City of Detroit City Council		20. Date of Resolution (Attach Copy)	21. Expiration Date of Exemption 12-31-2017
22. Name of Clerk		23. Date application was received by Local Unit	
24. Clerk's Signature		25. Clerk's Mailing Address 2 Woodward Avenue, CA YMC, Ste. 200, Detroit, MI	
26. Telephone Number (313) 224-1993	27. Fax Number (313) 224-1466	28. Email Address	
29. LUCI Code 82205	30. School Code 82010	31. Date District was Established 04/30/98	

STATE TAX COMMISSION USE

Application No.	Date Received	LUCI Code	School Code
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Strategic Staffing Solutions-S3, L.C. Project

Project Description

An Information Technology Development Center office operation to be established and operated by Strategic Staffing Solutions, L.C., a/k/a Strategic Staffing Solutions-S3, L.C., a Florida limited liability company, in the Penobscot Building.

1. New Personal Property Investment: Approximately \$1,000,000 of computers, furniture and fixtures, office equipment and leasehold improvements.
2. Estimated Dates of Installation: Commencing March 20, 2010 and to be completed in 1-2 years.
3. Estimated Leasehold Improvements Investment: \$100,000.
4. Estimated New Jobs: 437 within 5 years.

DETROIT.3981965.3

S3 offers alternative to offshore jobs

*Blue Cross signs on
as first customer*

BY SHERRI WELCH
CRAIN'S DETROIT BUSINESS

Strategic Staffing Solutions is trying to bring jobs back to Southeast Michigan — and the U.S. — with a \$7.3 million investment in a new, downtown Detroit contract IT employment center.

The new center will house IT consultants who can develop internal applications for companies, test software and provide contracted technical support call operations.

The company plans in March to open the center in the Penobscot Building, its global headquarters, with 50 to 100 employees.

President and CEO Cynthia Pasky said she believes the center eventually will create jobs for 437 new contract IT employees within two years' time.

As reported by *Crain's* Pasky
Detroit Business in November, the Michigan Economic Growth Authority approved the project for a \$3.8 million tax credit on the promise of creating those jobs in five years.

"We have customers who have taken business outside the U.S. because they are looking for a lower hourly rate," Pasky said. "But what (they) tell me is that there are a lot of hidden costs above the cost of the resources."

Offshore contract employees in places like India are harder to manage, given that they



See IT center, Page 19

IT center: S3 plans to bring jobs here

■ From Page 1

are a 12-hour flight away, Pasky said. There are also the costs of teaching offshore contract employees to speak English.

Customers "may pay ... 10-20 percent more (at the new center) than in India, but it's still less than what they'd pay in a more traditional value here" with larger companies such as Accenture or IBM Corp., she said.

"Over time that (cost) will balance out, I think. But there's another value in being able to say you brought jobs back to the U.S."

Blue Cross Blue Shield of Michigan, which encouraged Strategic Staffing to look at offering a U.S.-based alternative to offshoring contracted IT employees or housing them within its own buildings, has signed on as the first customer for 50 to 100 contract IT employees at the new center.

The company has about 500 IT contract employees housed at its sites, said President and CEO Daniel Loepp.

"If we moved this work to India ... we could save \$15 million to \$16 million over having them in-house," he said.

But after cutting about 1,100 people or 12 percent of its workforce last year to gain about \$170 million

in cost savings, "the idea of offshoring those (contract IT) jobs seemed over the top," Loepp said.

Strategic Staffing's new center provides a way to keep the jobs in Michigan but also to "sharpen the pencil and at least get some savings out of it," he said.

If contracting those positions through the new application development center works "and we move everything there, we'll end up saving \$5 million to \$7 million annually ... while keeping the jobs in Michigan," Loepp said.

Strategic Staffing, which operates Wayne County's internal technical support call center, also has opportunities to expand its contract with the county, Pasky said.

"We're talking to them about should we move their call center jobs into the new facility. That (would) give us more opportunity for expansion and ... for shared resources."

Strategic Staffing, marked its 20th consecutive year of growth in 2009, increasing sales by 5 percent year over year to \$169 million. It closed on the three-year lease for 8,250 square feet of more space at the Penobscot late last week.

The company has right-of-first-refusal to expand into the other half of the 26th floor and to the 25th floor, and four one-year options to extend the lease, Pasky said.

Southfield-based Signature Associates represented Strategic Staffing

in the deal, and Farmington Hills-based Friedman Real Estate Group represented the Penobscot Building.

Financial institutions based outside of Michigan are also showing interest, Pasky said.

It wouldn't be surprising to see financial services firms being more cautious about sending jobs offshore, given the amount of media attention they've been getting around the issue of bailouts, said Barry Asin, president of Staffing Industry Analysts, which provides research and analysis on the staffing industry. Like Crain's Detroit Business, the Mountain View, Calif.-based company is owned by Crain Communications Inc.

While the concept of providing a cheaper, onshore contract IT alternative isn't completely new, Strategic Staffing is on the leading edge of the trend, Asin said.

"Where a few years ago the push was to take every possible thing you could offshore for big cost savings ... (those) savings ... are not always as large as they might appear, and there are quality issues."

Particularly with call centers, there's been a movement to bring more back onshore, Asin said.

"There's been somewhat of a backlash from customers. ... It can be good business to have jobs in the U.S.," he said.

Sherri Welch: (313) 446-1694, swelch@crain.com



Loepp

Strategic Staffing Solutions-S3, L.C. Project

Project Location

26th floor of the Penobscot Building, located at 645 Griswold Street, Detroit, Michigan 48226.

Legal description of the Penobscot Building is as follows:

Real property in the City of Detroit, County of Wayne, State of Michigan, described as follows:

That certain real property located in the City of Detroit, County of Wayne, State of Michigan, more particularly described in Quit Claim Deed recorded in Liber 44501, Page 309, Wayne County Records as follows:

Lots 15 and 16 on Southerly side of Fort Street in Military Reserve in the City of Detroit, Wayne County, Michigan, according to the plat thereof as recorded in Liber 5 of Plats, Page 218, Wayne County Records, also Lots 16 and 17 on the Northerly side of Congress Street in said Military Reserve, except that part of said Lot 17 taken for and now used as a public alley, also Lot 17 on the Southerly side of Fort Street and Lots 7, 8 and 9 on Westerly side of Griswold Street in said Military Reserve; also that part of vacated alley lying Southerly of and adjoining said Lots 15 and 16 on Northerly side of Congress Street.

Said land is more accurately described as follows:

Lots 15 and 16 on the Southerly side of Fort Street in the Military Reserve in the City of Detroit, Wayne County, Michigan, according to plat thereof recorded in Liber 5, Page 218, City Records, Wayne County, Michigan, also Lots 16 and 17 on the Northerly side of Congress Street, in said Military Reserve, except that part of said Lot 17 taken for and now used as a public alley; also Lot 17 on Southerly side of Fort Street and Lots 7, 8 and 9 on Westerly side of Griswold Street in said Military Reserve, also that part of vacated alley lying Southerly of and adjoining said Lots 15 and 16 on Southerly side of Fort Street and Northerly of and adjoining said Lots 16 and 17 on Northerly side of Congress Street